

Week ahead

China – Xi to become lifetime sovereign?

China – signs point to storm ahead in trade conflict with US

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RMB / USD exchange rate



Source: Bloomberg, Erste Group Research

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Indications of past performance are no guarantee of a positive performance in the future

Chinese National People's Congress paves path for further terms for President Xi

The Chinese National People's Congress came to an end this week. As expected, President Xi Jinping may move up to become lifetime sovereign by China's National People's Congress removing the restriction of a maximum of two terms. Not unexpectedly, this step is being accompanied by increased surveillance (establishment of a national supervisory commission). From an economic point of view, the statements by Premier Li Keqiang, who held out the prospect of a slightly slower economic growth rate of +6.5% for 2018, were important.

We are increasingly skeptical about the long-term economic future of China. Since the economic rise of China (which began in the early 1980s) took place in a political phase of deliberate power sharing in connection with a rise of individual freedom, we are increasingly skeptical towards the long-term economic development of China in this changed political environment. The restriction of personal freedoms and increasing surveillance (key word: "Social Credit System") are, especially with regard to China's own history, not a good basis for rising prosperity, which is, above all, reliant on active and free citizens. In this context, announcements from the previous year must be viewed critically, according to which internal commissions of the Communist Party are increasingly asserting their influence on companies with foreign participation.

At least the newly appointed central bank governor, Yi Gang, and the new deputy head of government, Liu He – responsible for finance and economics – provide some hope due to their previous backgrounds. Both are economists who studied in the US and both are considered to be reform-oriented. However, it remains to be seen whether they will succeed in making their voices heard by Xi Jinping. Currently, China's economy is developing in line with expectations. The GDP indicator of Bloomberg allows us to expect a GDP growth rate close to 7% for 1Q18. The currency of China, the renminbi, further firms against the USD, an indication of ongoing capital inflows to China. In our view, this should support the immediate growth prospects of China, which should also further benefit Europe's foreign trade.

China – Trade conflict with US poses threat to short-term growth outlook

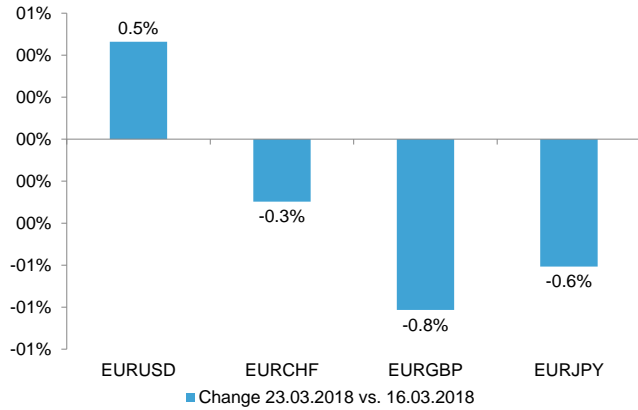
This week president Trump announced a comprehensive package of sanctions against China. Between China and the US, a conflict with regards to the lack of protection of intellectual property rights has already been smoldering for quite some time. The Trump administration wants to exert pressure on China via punitive tariffs as well as other measures

(restriction of Chinese investments in the US seem to be an additional option). According to media reports, China's Premier Li Keqiang has already promised better protection of intellectual property rights. Thus, it seems as if the threats from the US have already led to a response. Nevertheless, the tone between China and the US will roughen.

Provided that the volume of Chinese exports hit by the sanctions does not rise above USD 60bn, they pose, in our view, only a very low threat to China's economic outlook. The threat would rise if the sanctions were to be answered with countermeasures and further escalation. Beijing has already countered the attack and announced punitive tariffs on 128 different product categories from the US worth around USD 3bn. Furthermore, Beijing enacted legal steps via the WTO against the measures taken by Washington. This relatively moderate response from China indicates that there is still hope for a reasonable solution to the conflict.

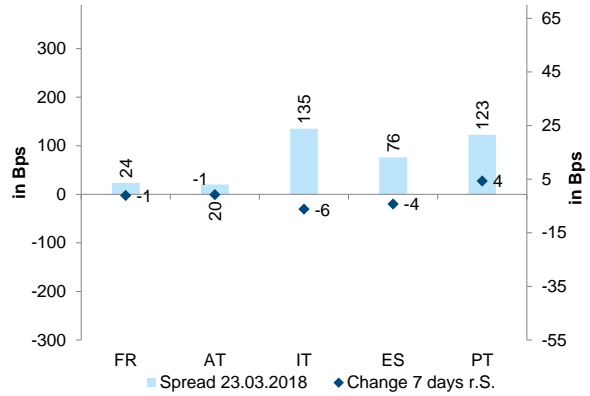
Forex and government bond markets

Exchange rates EUR: USD, CHF, GBP and JPY
change last week
(+ stronger euro / - weaker euro)



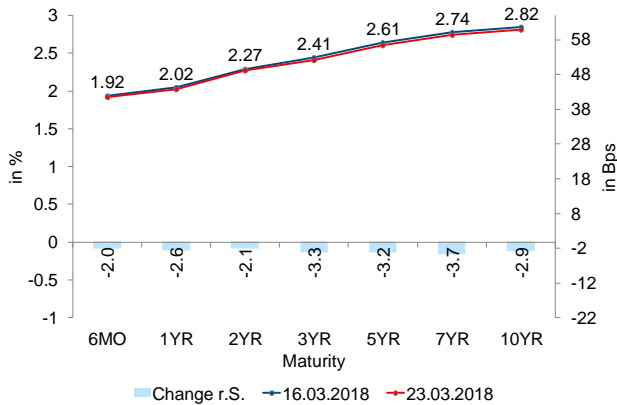
Source: Bloomberg, Erste Group Research

Eurozone – spreads vs. Germany
10Y government bonds



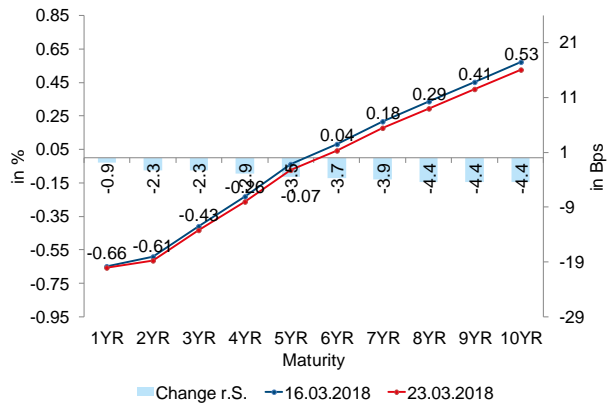
Source: Bloomberg, Erste Group Research

US Treasuries yield curve
change last week



Source: Bloomberg, Erste Group Research

DE Bund yield curve
change last week



Source: Bloomberg, Erste Group Research

Economic calendar

Date	Time	Ctry	Release	Period	Consens	Prior	
23-Mar	9:00	AT	Ind. Prod. y/y	Jan		3.5%	
	13:30	US	Durable Goods Orders	Feb P	1.7%	-3.6%	
	15:00	US	New Home Sales	Feb	622.6 thd	593.0 thd	
26-Mar	8:45	FR	GDP y/y	4Q F	2.5%	2.5%	
		FR	GDP q/q	4Q F	0.6%	0.6%	
27-Mar	n.a.	FR	Consumer Conf.	Mar		-7.1 index	
		DE	Consumer Conf.	Mar		6.5 index	
		IT	Consumer Conf.	Mar		-6.4 index	
		AT	Consumer Conf.	Mar		12.5 index	
		DE	Retail Sales y/y	Feb	1.6%	2.3%	
		11:00	EA	Consumer Conf.	Mar F	0.1 index	0.1 index
			EA	Business Conf.	Mar	113.1 index	114.1 index
		16:00	US	Consumer Conf.	Mar	130.5 index	130.8 index
28-Mar	10:00	AT	PMI Manufacturing	Mar		59.2 index	
	14:30	US	GDP q/q	4Q T	2.7%	2.5%	
29-Mar	9:00	AT	PPI y/y	Feb		1.3%	
	10:00	IT	PPI y/y	Feb		1.8%	
	14:00	DE	Inflation y/y	Mar P	1.5%	1.2%	
		DE	CPI m/m	Mar P	0.4%	0.5%	
	14:30	US	Jobless Claims	Mar 24	229.3 thd	229.0 thd	
		US	PCE Deflator	Feb	1.7%	1.7%	
	16:00	US	Univ. Michigan Index	Mar F	101.4 index	102.0 index	
30-Mar	8:45	FR	CPI m/m	Mar P		0.0%	
		FR	PPI y/y	Feb		0.9%	
		FR	Inflation y/y	Mar P		1.3%	
	11:00	IT	Inflation y/y	Feb	0.8%	0.5%	
		IT	CPI m/m	Mar P	2.2%	-0.5%	

Source: Bloomberg, Erste Group Research

FORECASTS¹⁾

GDP	2015	2016	2017	2018	2019
Eurozone	2.0	1.8	2.3	2.4	2.2
US	2.9	1.5	2.3	2.8	2.2

Inflation	2015	2016	2017	2018	2019
Eurozone	0.1	0.2	1.5	1.4	1.6
US	0.1	1.2	2.2	2.2	1.9

Interest rates	current	Jun.18	Sep.18	Dec.18	Mar.19
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.33	-0.30	-0.30	-0.30	-0.30
Germany Govt. 10Y	0.53	0.70	0.90	1.10	1.30
Swap 10Y	0.99	1.00	1.20	1.40	1.60

Interest rates	current	Jun.18	Sep.18	Dec.18	Mar.19
Fed Funds Target Rate*	1.44	1.88	2.13	2.13	2.38
3M Libor	2.27	2.20	2.40	2.40	2.70
US Govt. 10Y	2.82	3.00	3.10	3.20	3.30
EURUSD	1.23	1.15	1.14	1.13	1.16

*Mid of target range

Source: Bloomberg, Erste Group Research

¹ By regulations we are obliged to issue the following statement: Forecasts are no reliable indicator for future performance

Erste Group Research

Week ahead | Macro, Fixed Income | Eurozone, USA

23 March 2018

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